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PAX GLOBAL TECHNOLOGY LIMITED

百富環球科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 327)

**REVISION OF ANNUAL CAP OF
CONTINUING CONNECTED TRANSACTIONS**

REVISION OF ANNUAL CAP OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcements of the Company dated 30 December 2019 and 10 September 2021 (collectively the “Announcements”) in relation to, among others, the Group’s Chips Purchase Transactions with Hi Sun Group under the Existing Framework Agreement for a term of three years ending 31 December 2022.

Based on the recent review by the Board, it anticipates that the Existing Annual Cap for the year ending 31 December 2022 will not be sufficient to meet the Group’s business needs. In light of this, on 24 June 2022, the Company and Hi Sun entered into the 2022 Supplemental Agreement to, among others, revise the Existing Annual Cap for the year ending 31 December 2022 under the Existing Framework Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Hi Sun is the controlling Shareholder holding approximately 33.75% of the Company’s issued share capital and is therefore a connected person of the Company. As such, the Chips Purchase Transactions contemplated under the Revised Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps under the Revised Framework Agreement exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements and are exempt from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

* For identification purpose only

A. BACKGROUND INFORMATION

Existing Framework Agreement

Reference is made to the Announcements in relation to, among others, the Group's Chips Purchase Transactions with Hi Sun Group under the Existing Framework Agreement for a term of three years ending 31 December 2022 (the "Term"). The Existing Annual Caps for the two years ended 31 December 2020 and 31 December 2021 and the year ending 31 December 2022 are HK\$80 million, HK\$120 million and HK\$140 million respectively.

Historical Transaction Amounts

The historical transaction amounts of the Chips Purchase Transactions with Hi Sun Group for the two years ended 31 December 2020, 31 December 2021 and the five months ended 31 May 2022 were approximately HK\$76.6 million, HK\$118.3 million and HK\$122.5 million respectively.

2022 Supplemental Agreement and the Revised Framework Agreement

In view of the Group's continuing business needs and the approximately 88% utilisation rate (as at 31 May 2022) of the Existing Annual Cap for the year ending 31 December 2022, on 24 June 2022, the Company and Hi Sun entered into the 2022 Supplemental Agreement to revise certain terms of the Existing Framework Agreement including, among others, the Existing Annual Cap for the year ending 31 December 2022.

Pursuant to the Revised Framework Agreement, respective members of the Group and members of Hi Sun Group may enter into individual agreements setting out the terms of the individual Chips Purchase Transactions negotiated based on the following principles:

- (a) the Chips Purchase Transactions would be on normal commercial terms or better following arm's length negotiations;
- (b) the prices of the Chips would be determined with reference to the prices of the same or similar products sold by Hi Sun Group to its customers and the prevailing market prices of similar products in the market; and
- (c) the terms and conditions of the Chips Purchase Transactions, including the prices, order quantity, terms of settlement, delivery and shipment when considered as a whole, would be no less favourable to the Group than those available from independent third parties from time to time.

Save for the aforesaid, there is no change to other terms and conditions of the Existing Framework Agreement. Other details of the Chips Purchase Transactions under the Revised Framework Agreement, including without limitation the pricing basis, internal control measures and measures to safeguard the interests of the Shareholders implemented by the Group may be referred to in the Announcements.

B. REVISION OF ANNUAL CAP

Existing Annual Caps and actual Consideration

The Existing Annual Caps for the two years ended 31 December 2020 and 31 December 2021 and the year ending 31 December 2022 and the actual Consideration for the two years ended 31 December 2020, 31 December 2021 and the five months ended 31 May 2022 are set out as below:

	For the year ended		For the year ending
	31 December	31 December	31 December
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	
Existing Annual Caps	80,000	120,000	140,000
Actual Consideration	76,607	118,332	122,518
			(for the five months ended 31 May 2022)
			(unaudited)

The Board confirms that the Existing Annual Cap for the year ending 31 December 2022 has not been exceeded as at the date of this announcement.

Revised Annual Cap

Pursuant to the Revised Framework Agreement, the Revised Annual Cap for the year ending 31 December 2022 is HK\$190 million, representing an approximately 36% increase from the Existing Annual Cap for the year ending 31 December 2022.

Basis and assumptions for determining the Revised Annual Cap

In determining the Revised Annual Cap for the year ending 31 December 2022, the Board took into account the following factors: (i) the historical Consideration under the Existing Framework Agreement and the sales amount of the E-Payment Terminals related products of the Group in the corresponding period; (ii) the estimated market demand of the E-Payment Terminals related products during the Term and the anticipated business development of the Group; (iii) the estimated market prices of the Chips; and (iv) the production capacity assurance measures of the Group.

The Revised Annual Cap has been determined on arm's length negotiations between the Company and Hi Sun having considered, among others, the following basis and assumptions:

(a) the historical transaction amounts and the utilisation rate of the Existing Annual Caps

For the five months ended 31 May 2022, the actual transaction amount incurred under the Existing Framework Agreement was approximately HK\$122.5 million, representing approximately 88% of the Existing Annual Cap for the year ending 31 December 2022.

(b) the strong and persistent market demand for the Group's E-Payment Terminals products

The COVID-19 epidemic's impact on cashless payment has been immense. The Group has continued to record sales growth as cashless and contactless payments have become consumer's preferred transaction means. In particular, the Group recorded a robust sales growth of 27.3% in 2021 as compared to 2020. Based on the total shipment and current orders on hand for the Group's E-Payment Terminals products since the beginning of 2022 and up to the date of this announcement, the Group expects that the annual sales of its E-Payment Terminals products for the current year would exceed that for 2021.

For the calculation of the Revised Annual Cap, it is assumed that (i) the market demand for electronic payment, thus for the Group's E-Payment Terminals products, will persist; and (ii) the current orders on hand will not be cancelled or withdrawn. On such basis, the Group has projected a corresponding increase in the Chips Purchase Transactions as the Chips are essential components of the Group's E-Payment Terminals products, to satisfy the current orders on hand and meet future market demand.

(c) the persistently high demand for and price of chips

Although the shortfall of chips supply continues to steadily improve, the overall supply of chips remains constrained and the market price of chips remains generally high. In addition to the lingering chip shortages, the global surge in demand for chips, the general upsurge of production costs and the highly utilised production capacity of chips manufacturers have all led to the persistently high price of certain chips. For the calculation of the Revised Annual Cap, the shortage and high price of the Chips are assumed to last over the short term.

(d) the production capacity assurance measures of the Group

The Group's manufacturing scale is heavily reliant on the adequate supply of chips. Notwithstanding that the global chips shortage has continued to ease due to the increasing chips production and shrinking economy, hence diminished demand for domestic electronic commodities, it remains challenging for the Group to secure an adequate supply of chips components in light of the local governments' introduction of consumption stimulation measures which may boost the demand for chips. To mitigate the possible impact of chips shortage which may result in holding up production and denting sales, the Group will continue to order additional Chips to maintain an adequate inventory level. For the purpose of calculating the Revised Annual Cap, it is assumed that the supply of chips will remain unstable during the second half of 2022.

Based on the above considerations and assumptions, the Board anticipates that the Existing Annual Cap for the year ending 31 December 2022 will be exceeded soon.

C. REASONS FOR AND BENEFITS OF ENTERING INTO THE 2022 SUPPLEMENTAL AGREEMENT

The COVID-19 epidemic, consumers' expectation and introduction of local government initiatives have accelerated the adoption of cashless and contactless payment, leading to remarkable changes to consumer payment behavior. Based on the market forecast, such changes are expected to outlast the pandemic and cashless and contactless payments would remain dominant in the economy. According to the current orders for the E-Payment Terminals products and production plan, the Group's demand for the Chips which are the key components of the Group's E-Payment Terminals products will remain fierce.

Despite the steady alleviation of the chips shortage, it is expected that the demand will remain strong. The Board believes that the increase in the Existing Annual Cap for the year ending 31 December 2022 would provide the Group the necessary flexibility to continue to secure a stable source of the Chips from Hi Sun Group and maintain an adequate inventory level, in order to manage any possible shortage, fulfil the commitments with the customers, and to accept more orders from the market and further expand its market share of electronic payment products.

Given the historical friendly business relationship between the Group and Hi Sun Group, the mutual understanding of the parties' business practice and standard required, and the fact that the specifications and quality of the Chips supplied by Hi Sun Group are well suited to the needs of the Group, the Board believes that it is in the commercial interest of the Group to purchase the Chips from Hi Sun Group, which can significantly reduce (i) the Group's operational risks, including the risks of chips shortage causing obstruction to production capacity and fluctuation in production costs, which may adversely affect its business operation; and (ii) the Group's costs and time required for sourcing new suppliers and minimise administrative costs in relation to extra supervision and quality check of the Chips.

The Directors (including the independent non-executive Directors) consider that the Chips Purchase Transactions contemplated under the Revised Framework Agreement are conducted in the ordinary and usual course of business of the Group and on arm's length basis, the terms of the 2022 Supplemental Agreement have been negotiated on an arm's length basis and are on normal commercial terms, and the terms of the Revised Framework Agreement including the Revised Annual Cap are fair and reasonable and are in the interests of the Group and the Shareholders taken as a whole.

The Company will continue to review and supervise the transaction amounts in respect of the Revised Framework Agreement going forward with a view to ensuring that necessary measures including appropriate actions will be promptly taken in order to comply with the applicable requirements under the Listing Rules.

INFORMATION OF THE PARTIES

Information of the Group and the Company

The Company is an investment holding company and the Group is principally engaged in the development and sales of E-Payment Terminals products, provision of maintenance and installation and payment solution services. As at the date of this announcement, the Company is held as to approximately 33.75% by Hi Sun, which is a controlling Shareholder and therefore a connected person of the Company.

Information of Hi Sun

Hi Sun is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange, together with its subsidiaries is principally engaged in the provision of payment processing solutions, fintech solutions and services, platform operations solutions and financial solutions. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the ultimate beneficial owners of the substantial shareholders of Hi Sun are Mr. Kui Man Chun (directly and indirectly holding in aggregate approximately 23.25% of the share capital of Hi Sun) and Mr. Che Fung (indirectly holding approximately 12.04% of the share capital of Hi Sun).

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As one or more of the applicable percentage ratios in respect of the Annual Caps under the Revised Framework Agreement exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements and are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Li Wenjin, who concurrently serves as a director of the Company and also a director of Hi Sun, is deemed to have a material interest in the continuing connected transactions contemplated under the Revised Framework Agreement and has accordingly abstained from voting on the Board resolution approving the 2022 Supplemental Agreement in accordance with Rule 13.44 of the Listing Rules.

DEFINITIONS

In this announcement, the following terms have the meanings set forth opposite them:

“2022 Supplemental Agreement”	the supplemental agreement entered into between the Company and Hi Sun dated 24 June 2022 to amend certain terms of the Existing Framework Agreement and adopt the Revised Annual Cap;
“Annual Cap(s)”	the annual cap(s) of the Consideration;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Chips”	collectively:– (i) the contactless reader chips (Contactless Reader Chips) (非接觸卡讀卡芯片); (ii) the security micro controller unit chips (Controller Unit Chips) (加密安全處理器芯片); and

	(iii) the mag-stripe card security decoder chips (Security Decoder Chips) (磁條卡加密解碼芯片);
“Chips Purchase Transactions”	the purchase of the Chips under the Existing Framework Agreement or the Revised Framework Agreement (as the case maybe);
“Company”	PAX Global Technology Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (Stock Code: 327);
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	the total contract value of the Chips Purchase Transactions;
“Directors”	the directors of the Company;
“E-Payment Terminals”	electronic fund transfer point-of-sale terminals;
“Existing Annual Cap(s)”	the annual cap(s) of the Consideration under the Existing Framework Agreement;
“Existing Framework Agreement”	the framework agreement dated 30 December 2019, as amended by the supplemental agreement dated 10 September 2021;
“Group”	the Company and its subsidiaries;
“Hi Sun”	Hi Sun Technology (China) Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (Stock Code: 818);
“Hi Sun Group”	(under the Existing Framework Agreement) Hi Sun and its subsidiaries and (under the Revised Framework Agreement and for the purpose of this announcement only) Hi Sun, its subsidiaries and designated associates;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“Revised Annual Cap”	the annual cap of the Consideration for the year ending 31 December 2022 under the Revised Framework Agreement;
“Revised Framework Agreement”	the Existing Framework Agreement as amended by the 2022 Supplemental Agreement;
“Shareholder(s)”	the shareholder(s) of the Company;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	per cent.

By Order of the Board of
PAX Global Technology Limited
Cheung Shi Yeung
Company Secretary

Hong Kong, 24 June 2022

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Nie Guoming, Mr. Lu Jie and Mr. Li Wenjin and three independent non-executive Directors, namely Mr. Yip Wai Ming, Dr. Wu Min and Mr. Man Kwok Kuen, Charles.